



FINAL REPORT

Public Retirement Systems Committee

January 2006

MEMBERS

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Co-chairperson
Senator Michael Connolly
Senator Steve Kettering
Senator John Kibbie
Senator Doug Shull

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Co-chairperson
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Contents:

- I. Committee Proceedings.
- II. Overview.
- III. Judicial Retirement System.
- IV. Iowa Public Employees' Retirement System (IPERS).
- V. Municipal Fire and Police Retirement System of Iowa (MFPRSI).
- VI. Peace Officers' Retirement System (PORS).
- VII. TIAA-CREF Presentation.
- VIII. Committee Recommendation.
- IX. Materials Filed With the Legislative Services Agency.

AUTHORIZATION AND APPOINTMENT

The Public Retirement Systems Committee was established pursuant to Iowa Code section 97D.4 and charged with reviewing and evaluating public retirement systems in Iowa. The Committee reviewed the Iowa Public Employees' Retirement System, the Municipal Fire and Police Retirement System of Iowa, the Department of Public Safety Peace Officers' Retirement System, the Judicial Retirement System, and TIAA-CREF.



Public Retirement Systems Committee

I. Committee Proceedings.

The Committee conducted meetings on three days during the 2005 Interim. The Committee met on November 2, 2005, November 3, 2005, and December 21, 2005, all in Room 116 of the State Capitol.

II. Overview.

The Public Retirement Systems Committee received testimony from various organizations and individuals concerned with public retirement, including individuals involved with management of the various public retirement systems in the state. During the course of the meetings, several presenters discussed H.F. 729, which deals with issues concerning the Iowa Public Employees' Retirement System and the Judicial Retirement System. The bill passed the House in the 2005 Session and is eligible for consideration by the Senate in the 2006 Session.

III. Judicial Retirement System.

Overview: Mr. David Boyd, State Court Administrator, summarized the recent results from the actuarial update and indicated that as of July 1, 2005, the funded ratio of assets to liabilities of the system is now 77 percent. The failure of the state to contribute the statutorily required rate of 23.7 percent of covered payroll since fiscal year 2001-2002 has resulted in approximately \$13 million of underfunding to the retirement system.

Iowa Judges Association. The Iowa Judges Association recommended that the provisions of H.F. 729 concerning judicial retirement be passed. Those provisions would, in part, increase the percentage multiplier for each year of service up to a maximum of 20 years of service from 3 percent to 3.5 percent.

IV. Iowa Public Employees' Retirement System (IPERS).

IPERS Staff. Ms. Donna Mueller, Chief Executive Officer, and Ms. Pat Beckham, Consulting Actuary, addressed the Committee. For the fiscal year ending June 30, 2005, the fund earned an 11.25 percent return, ranking in the top quartile for similar pension funds. However, the funded ratio of assets to liabilities was 88.7 percent and investment returns are unlikely to improve the funded status of the fund. IPERS recommended that increased contributions, such as provided in H.F. 729, are necessary to adequately fund the system. Inaction on raising contribution rates will only increase the cost of solving the problem in the future.

IPERS Investment Board. Mr. David Creighton, CEO of The Bryton Companies in West Des Moines and a member of the IPERS Investment Board, addressed the Committee. Investment policy cannot solve IPERS' funding system and increased contributions are needed. No prudent asset allocation will provide the long-term funding needed for IPERS' without an increase in contributions.

IPERS Benefit Advisory Committee (BAC). BAC recommended the following:



- House File 729 should be passed. The bill would provide for an increase in the total contribution rate of .5 percentage points per year for a maximum of eight years and maintain the 60/40 sharing split between employer and employee contribution rates.
- Maintain the current benefit structure for current members and new hires.
- Eventually, allow IPERS to adjust contribution rates (up or down) in the future if the actuary signals the need for such a change.
- Establish an independent board of trustees for IPERS.

Iowa Association of School Boards. The association recommended that absent additional state funding, contributions to IPERS should be shared equally by the employer and the employee.

Iowa League of Cities. The league recommended that the actuarial soundness of the system be strengthened in a way that fairly allocates the contribution rates between employer and employee.

IPERS Improvement Association. The association supported the following:

- No increase in benefits for the general membership of IPERS.
- Take necessary action to protect the IPERS retirement fund. House File 729 should be passed.
- Opposes privatizing IPERS and converting it into a defined contribution plan.

Miscellaneous IPERS Proposals:

- Replace the current rule of 88 with the rule of 92 in determining eligibility for retirement. Reintroduce a mechanism to reduce the retirement formula for more highly compensated members of IPERS.
- Allow a credit against the full actuarial cost of a buyback of service by a member under IPERS reflective of the amount previously contributed to the system by that member and not refunded to the member.

V. Municipal Fire and Police Retirement System of Iowa (MFPRSI).

MFPRSI Staff. Mr. Dennis Jacobs, MFPRSI Executive Director, and Mr. Donn Jones, Consulting Actuary, provided background information concerning the retirement system to the Committee. Mr. Jacobs reviewed several issues facing the system, including the additional financial stresses on the system due, largely, to recent investment performance. Mr. Jacobs noted that the fund returned 12.2 percent last fiscal year. Based on the most recent actuarial valuation of the system for the fiscal year ending June 30, 2005, the funded status of the system is 92 percent. In addition, based on this valuation and the current state appropriation to the system, the required contribution rate from cities for FY 2006-2007 will be 27.75 percent, down from 28.21 percent for FY 2005-2006. Mr. Jacobs noted that the state contribution to the system has been frozen for several years and that the cumulative shortfall is approximately \$30 million. If the state paid the promised percentage, the city contribution rate would be reduced by 2.39 percentage points.

Iowa League of Cities. The league recommended the following legislative changes:

- Establish a reasonable split of the required contribution rate between members and cities. Remove the 17 percent floor on city contributions. Cap the cities' contribution rate.



Public Retirement Systems Committee

- Oppose any expansion of benefits such as establishing a DROP (deferred retirement option program) or including certain overtime in earnable compensation.
- Maintain the state's commitment to providing a portion of the cost of benefits provided under the system.
- Clarify that the presumption that heart and lung disease is job-related in establishing an accidental disability benefit is rebuttable.
- Eliminate the interest charged on newly discovered liabilities of cities arising out of the transition to the merged system in 1992.

Iowa Professional Firefighters. The association recommended the following:

- Maintain the current mechanism for establishing contribution amounts by employers and employees.
- Establish, when funding is available, a maximum pension of 90 percent of final average pay.
- Establish a no-cost deferred retirement option plan (DROP) for members.
- Prevent cities from charging the cost of on-the-job injuries to the member's health insurance.

Iowa State Police Association. The association recommended the following:

- Establish, when funding is available, a maximum pension of 90 percent of final average pay.
- Maintain current contribution amounts and formula.
- Establish a fiscally responsible DROP program.
- Include overtime in a member's earnable compensation for purposes of calculating retirement benefits.

VI. Peace Officers' Retirement System (PORS).

PORS Staff. Mr. David Heuton, PORS Director of Administrative Services, indicated that recent investment losses, a reduction in active members in the system due to recent budget constraints, and the payment of only the minimum specified contribution level have placed significant financial stress on the system. Based upon the most recent actuarial valuation of the system, the total contribution rate should be 45.09 percent, or 18.74 percentage points greater than the minimum required rate from the members and the state. The funded percentage of assets to liabilities of the system is 89.6 percent. Mr. Heuton then addressed the Committee concerning possible options in granting certain members of the system service credit under PORS for prior public safety employment.

Portability Issue – MFPRSI System. Several current members of PORS were previously covered under MFPRSI and left that employment, without receiving a refund, when they joined PORS. These members seek passage of a modified version of H.F. 592 which would grant these members service time under PORS for this prior MFPRSI service. The modified request would provide that the cost of granting this service credit be provided by a state appropriation of around \$1.8 million.

Iowa State Troopers Association. The association recommended the following:



- Do not increase the employee contribution rate.
- Provide an option for members of PORS who did not receive years of credit service for time served in positions transferred from IPERS to PORS to purchase these years of service at an actuarial cost.

Iowa State Patrol Supervisors Association. The association made no recommendation concerning any benefit enhancements without any further actuarial analysis and supports the Iowa State Troopers Association position.

VII. Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) Presentation.

Defined contribution (DC) retirement plans have several advantages over traditional defined benefit plans. DC plans are always fully funded and provide enhanced portability and investment involvement to members. If a DC plan is established, the plan should provide for a minimum total contribution rate of 12 percent; investment choice without inclusion of any speculative fund; distribution options; and adequate education, guidance, and advice. The DC option model has worked well for higher education, including eligible Board of Regents and community college employees in Iowa.

VIII. Committee Recommendations.

The Public Retirement Systems Committee made the following recommendations:

A. House File 729, introduced during the 2005 Legislative Session and passed by the House concerning the Iowa Public Employees' Retirement System (IPERS) and the Judicial Retirement System, should be rereferred to the Senate State Government Committee for consideration of passage.

B. The House State Government Committee should consider the technical changes recommended by IPERS and the Municipal Fire and Police Retirement System (MFPRSI) and a defined contribution option plan for IPERS members. The Senate State Government Committee should consider all other proposals presented during the 2005 Legislative Session or discussed during this Committee's meetings in November.

C. The House and Senate Appropriations committees should consider using the one-time money available from the refinancing of Iowa's tobacco settlement bonds for repaying the state's obligation to the Judicial Retirement System, MFPRSI, and the Peace Officer's Retirement System.

IX. Materials Filed With the Legislative Services Agency.

The materials listed were distributed at or in connection with the committee's deliberations and are on file with the Legislative Services Agency. The materials may be accessed from the "Additional Information" link on the Committee's Internet page:

<http://www.legis.state.ia.us/aspx/Committees/Committee.aspx?id=57>.

1. Judicial Retirement System — Actuarial Report.
2. Judicial Branch Presentation, submitted by Mr. David Boyd.
3. Judicial Branch — Fund Investment Information, submitted by Office of the Treasurer of



Public Retirement Systems Committee

State.

4. IPERS — Actuarial Valuation Report.
5. IPERS — Committee Presentation, submitted by Ms. Donna Mueller and Ms. Patrice Beckham.
6. IPERS — Investment Service Contractors, submitted by Ms. Mueller and Ms. Beckham.
7. IPERS — Benefits Advisory Committee Presentation, submitted by Mr. Lowell Dauenbaugh.
8. IPERS — Benefits Advisory Committee Resolution, submitted by Mr. Dauenbaugh.
9. IPERS — IPERS Investment Board Presentation, submitted by Mr. David Creighton, Sr.
10. IPERS — Iowa Association of School Boards Presentation, submitted by Mr. Len Cockman.
11. IPERS — Iowa League of Cities Presentation, submitted by Ms. Heisinger.
12. IPERS — Public Comment, submitted by Mr. Edward Moses.
13. IPERS — Buyback Proposal — Public Comment, submitted by Mr. Jim West.
14. MFPRSI Actuarial Report.
15. MFPRSI — Reply to Committee request for information, submitted by MFPRSI.
16. MFPRSI — Iowa League of Cities Presentation, submitted by Ms. Lorelei Heisinger.
17. MFPRSI — Iowa Professional Firefighters, submitted by Mr. Tom Fey and Mr. Jack Reed.
18. MFPRSI — Public Comment, submitted by Mr. Richard Roepsch.
19. PORS — Actuarial Valuation Report (draft).
20. PORS Historical Data, submitted by PORS.
21. PORS — Issue Brief on IPERS covered service, submitted by Mr. Dave Heuton.
22. PORS — Prior Service Actuarial Study, submitted by Mr. Heuton.
23. PORS — Fund Investment Information, submitted by Office of the Treasurer of State.
24. PORS — Iowa State Troopers Association Presentation, submitted by Ms. Betsy Dittmore.
25. PORS — Retirement Portability with MFPRSI — Public Comment, submitted by Mr. Steve Bogle.
26. PORS — Iowa State Patrol Supervisors Association Presentation, submitted by Mr. Fey.

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